

KAZAKSTAN COMMUNITY LOAN FUND

SEMI-ANNUAL REPORT:

October 1999 – March 2000

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SUMMARY

This was a busy and important period for KCLF with the final approval of the USAID extension to open a branch in Shimkent. These six months focused on establishing the new branch and the start of lending. After a three-month re-registration period, the Shimkent branch began lending in February 2000 has around 120 clients.

Other activities during the period included hiring five new Enterprise Agents in Taldykorgan, continued efforts of the BDS Unit to assist the sewing sub-sector in Taldykorgan with the registration of a new Sewer's Association, and holding a micro finance training for two Central Asian NGOs.

PROGRAM ACCOMPLISHMENTS

Key Program Indicators

Table one below provides a summary of KCLF's projected first quarter indicators compared to its actual performance. While the outstanding loans and portfolio are slightly below projections this is mainly a result of Shimkent's initial lending in late February (with original target date set for January). Even given the late start, the Shimkent branch is still poised to do well financially and is already exceeding its indicators for return on operations at 16%.

The Taldykorgan office is still performing very well and continues to exceed profitability targets. During this reporting period the Taldykorgan office was able to invest \$73,285 of its retained earnings into its lending capital. Given this level of activity, the program is well established to continue its growth and performance beyond donor funding.

Table 1
Key Program Indicators

| | PROJECTED FIRST QUARTER, 2000 | AS OF MARCH 2000 |
|---|--|-------------------------|
| Number of Loans Outstanding | 3,135 | 2,169 |
| Taldykorgan | 2,850 | 2,048 |
| Shimkent | 285 | 121 |
| Outstanding Loan Portfolio | \$571,900 | \$483,441 |
| Taldykorgan | \$529,031 | \$475,158 |
| Shimkent | \$ 42,869 | \$8,283 |
| Portfolio at Risk | 5% | 3.5% |
| Loan Loss Rate/Arrears | 1% | 1.3% |
| Return on Operations* | | |
| Taldykorgan | 91% | 101% |
| Shimkent | 13% | 16% |
| Operating Efficiency ** (consolidated) | 31% | 31% |

- Including provisions, depreciation, and the cost of funds.

** Calculated based on total administrative expenses (including salaries, rent, utilities, depreciation, etc.) for the six-month period/average loan portfolio for the period.

Portfolio Outreach

As indicated in Table 2, KCLF continues to disburse a large number of small loans every month, with almost a million dollars being revolved during the current reporting period. In general, around \$180,000 is disbursed every month through 700 new and repeat loans. This means continued rotation of funds as well as the retention of repeat clients. KCLF believes that its continued demand for small, short-term loans is well received in Taldykorgan as most vendors can utilize only small amounts in short periods. Financially, this also works well for the program given its fee and interest rate structure.

Since KCLF disburses in tenge, one lesson from the financial crisis in 1999 (when the tenge devalued by 60%) is that it is better and safer for the program to encourage shorter-term loans. It was immediately before the devaluation (in April) that KCLF increased its interest rates for longer-term loans. This achieved two objectives. First, it provided KCLF with a margin for possible continued devaluation during any given loan term. Second, it encouraged clients to take shorter-term loans. Given its achievements highlighted in Table 2, KCLF believes that this policy has proven to work well for the program and its clients.

Table 2
Summary Portfolio Outreach
October 1997 – March 2000

| PORTFOLIO/OUTREACH | AMOUNT/NUMBER |
|---|----------------------|
| Number of active loans (as of Oct. 1997) | 0 |
| Number of active loans (as of April 1, 2000) | 2,169 |
| Number of loans disbursed (cumulative) | 10,292 |
| Amount Disbursed (cumulative) | \$2 million |
| Arrears (unpaid balance on loans with payments more than 30 days overdue) | \$8,623 |
| Percentage Female Clients | 81% |
| Number of Staff (including Shimkent) | 34 |
| Effective Annual Interest Rate | 50.4% |
| Local, Annual Bank Lending Rate | 25% |
| Local Inflation Rate (Source: NBK) | 17% |

PROGRAM ACTIVITIES

Branch Start-Up

The new KCLF branch in Shimkent began lending operations during the reporting period. The start-up took four months, mainly due to the re-registration of its founding charter. Due to the way Kazakhstani law is written, KCLF's original charter had to be re-registered with the National Bank and Ministry of Justice before the new branch could legally operate. This process was time consuming but necessary.

In October, the KCLF Program Director and ACIDI/VOCA manager traveled to Shimkent to identify potential office space and recruit staff. The first trip was very successful with the securing of office space inside the National Bank in Shimkent and hiring a translator and administrative staff. Subsequent to this trip, furniture and equipment were purchased and the office became functional.

Key to the branch's success has been the transfer of KCLF's Chief Accountant to Shimkent to work as the Branch Manager. This has allowed for uniformity in the branch's development and ensuring that consistent systems and procedures were followed.

Enterprise Agent (EA) recruitment began in December. To find EAs, a wide campaign was made on the radio, in newspapers, and on television. The branch received over 100 resumes and held two weeks of interviews. Fifteen candidates were selected to attend a three-day training program (that KCLF uses as a screening and selection device). Six finalists were selected from the training and invited to join the branch to work on a probationary basis for one month. During January, one finalist was asked to leave and the branch now operates with five EAs. During December a Chief Accountant was also hired and the accounting system was put into place.

In February a computer specialist was hired and KCLF's new MIS was installed in Shimkent. The computer specialist is responsible for maintaining all the hardware and software in the branch and inputting all the data entry associated with clients and loans. The MIS is currently operational in Shimkent.

On February 23rd, the KCLF/Shimkent branch made its first loans to business loan groups. A total of \$6,700 was lent to 68 clients. No repayment problems have occurred to date and there continues to be increasing demand as the program's name grows throughout the micro business community. As of the end of April 2000, the branch had an active portfolio of \$21,350 and almost 200 active clients.

General Assembly

In January, KCLF held its second annual General Assembly in Taldykorgan. This is an annual event in which the fund brings together all of its clients and presents its accomplishments to date and votes on new Board members. In 2000, three Board member seats had become available and there were six candidates running for the positions.

During the Assembly each Board candidate was given an opportunity to speak and discuss their interest in sitting on the Board. The three new Board members elected include one man (a clothing vendor) and two women (a baker and a food vendor). These new members have already shown their interest and commitment to the Board and attending meetings and have played a very active role in the regular monthly meetings.

Individual Lending

In December, an ACDI/VOCA volunteer traveled to Taldykorgan to work with the fund to design an individual lending program. The volunteer, Linda Gallagher, has micro credit as well as banking experience in the United States. Ms. Gallagher spent over two weeks in Taldykorgan holding workshops with staff and clients to determine the level of interest in individual lending and to brainstorm ideas about the program's approach.

As a result of this very intensive assignment, KCLF has in place a program design that is understood and accepted by the staff and clients. Ms. Gallagher's final report also included a policy and procedures manual and a loan application form for the individual lending program. KCLF has continued to work on this structure and refine it according to its internal needs. KCLF expects to start its individual lending during the next reporting period.

NGO Training

During the reporting period, KCLF held two training programs for NGOs from Central Asia. This included a November training session held for two NGOs from Uzbekistan (representing UNDP and a Business Women's Association). In December, another training was held for two groups from Tajikistan (representing Mercy Corps International and the Eurasia Foundation).

KCLF has developed a very good training agenda that introduces micro finance organizations to its program. It includes 2 ½ days of theoretical training about the structure of the program and its methodology. This is followed by 2 ½ days of practical hands-on activities dealing with group formation and working with clients. The agenda used for these trainings is attached.

Sub-Sector Activities

KCLF has been working with the sewing sub-sector in Taldykorgan for over a year to help this industry collaborate and work more efficiently. The goal of this work has also been to develop a market niche for home-made clothing that can compete with the ready-made clothing from Turkey and China. KCLF believes that through this type of initiative it can steer micro businesses from a trader-only mentality to begin looking at opportunities to manufacture products that can compete with imported products and increase the value-added of their business.

Part of KCLF's work has been to organize events that would bring together both sewers, suppliers and buyers to begin a dialogue about how the sector works and how systemic problems can be addressed. As such, KCLF organized several trade shows that offered sewers an opportunity to show their home-made outfits to a wider audience. These trade shows have proven to be successful and will continued to be held at strategic times throughout the year.

In addition to these events, KCLF also helped the sewers formalize their working relationship and establish an association for the sector. In January, KCLF facilitated the registration of this association, which has established a physical office and continues to meet on a monthly basis. Also during this reporting period the KCLF Peace Corps Volunteer secured a \$6,000 grant for the Association to purchase equipment and hold several technical training programs.

KCLF believes that this Association will continue to blossom and grow in the years ahead as the demand for clothing continues to increase and home-based producers develop a name and reputation for high quality, fashionable clothing.

MIS Development

In October, KCLF received a \$10,000 grant from the HIVOS Foundation in the Netherlands. This grant partially supported the design and implementation a new Russian-based MIS. Previously, KCLF had been using an English MIS that had many limitations and problems regarding servicing. KCLF hired a computer expert to design this system which is currently completed and fully functional.

KCLF's new MIS (called ISKRA) is a huge step for the program as it provides greater flexibility and easier reporting. ISKRA has also tremendously reduced the workload of the accountants and data entry staff and allowed KCLF to significantly increase its efficiencies.

ISKRA provides a wide range of reports and is extremely flexible to modify as KCLF's needs change and grow. One of the first things KCLF has been able to do as a result of ISKRA is to change the EA incentive system to be based on the portfolio size and quality of each EA. This new incentive system is much easier to implement (for the accountants) and is more transparent in practice than the previous EA incentive system.

KCLF is currently using its own funds to further refine ISKRA and develop a system of unified reporting for its branch (es). As interest and demand grows from other local NGOs about ISKRA, KCLF management is also considering selling the system to other micro finance institutions in the region.

Internal Training Activities

During the reporting period, four internal training sessions were held. The first was in October in Taldykorgan. This was a 3-day training course to identify and select new Enterprise Agents. As a result of this training, the Taldykorgan office hired five new Enterprise Agents that have currently passed through their probation period and are actively working.

The second training was in Shimkent for new Enterprise Agents. The BDS manager and Senior Enterprise Agent from Taldykorgan, as well as the new Shimkent Branch Manager conducted the training. This was a very successful program and created an awareness about the program throughout Shimkent. As a result of this training, six new Enterprise Agents were hired and are working in the new Shimkent branch.

In February an *Improve Yourself Training* was held in Shimkent and Taldykorgan. This training is focused on the Enterprise Agents and how they work with clients and manage their workload. It is a one-day course to focus on fine tuning the EA's work with clients in terms of communication, organization, and providing clear and thorough information. In addition, this training provides staff the opportunity to discuss various problems with their work and to attempt group solutions.

Other Trainings

In November, the new Branch Manager for Shimkent (Goolshat Akimzhanava) traveled to the Ukraine to attend the Micro Finance Center's course on micro lending. This program was designed for beginners and introduced the basic concepts of micro lending and discussed lending in programs around the world. This was an excellent training for the new Branch Manager and provided her with a wide range of best practice concepts. As a follow-up to the training, Goolshat conducted a ½ day training for her staff in Shimkent to share the information she had learned in the Ukraine.

In February, the KCLF Program Director Shalkar Zhusupav traveled to America under a USIS-sponsored training program. This was a three-week program that exposed Shalkar to a wide range of American small business practices. During this visit Shalkar met with the Small Business Administration, USAID, NGOs involved in micro credit, newspapers, banks, and saw several free trade zones. This trip was an excellent opportunity for Shalkar to not only learn about the American approach to small business development but to develop important contacts in the field.

FINANCIAL MANAGEMENT

As can be seen in Table 3 below, KCLF continues to achieve its financial objectives and can cover operational as well as financial (interest rate) costs for the program. As such, the Taldykorgan office is well-established to work and maintain its operations independently. Given the potential of the market in Shimkent, KCLF feels confident that this branch will reach and exceed the achievements of the Taldykorgan office.

Table 3 also provides clear evidence that KCLF has been able to keep its expenses low while still increasing revenue through client growth. For example, during the reporting period no new administrative staff were hired but client growth was met through increased staff productivity.

Table 3
Financial Statement
MARCH 2000

| ACTIVITIES | AMOUNT |
|---|---------------|
| Outstanding loan amount | \$483,441 |
| Number of loans outstanding | 2,169 |
| Average loan size | \$207 |
| Portfolio at Risk (more than one day late) | 3.5% |
| Long run loss rate * | 1.3% |
| INTEREST RATES | AMOUNT |
| Program Interest Rate | 50-70% |
| Inter-Bank Lending Rate | 25% |
| Inflation Rate | 17% |
| CLIENT REVENUES | AMOUNT |
| Interest Income | \$21,969 |
| Fee Income | \$2,130 |
| Total Client Revenue | \$24,099 |
| NON-FINANCIAL EXPENSES | AMOUNT |
| Administrative | \$11,955 |
| Depreciation of Fixed Assets | \$502 |
| Loan Loss Provision | \$1,433 |
| <i>Sub-Total</i> | \$13,890 |
| Cost of Funds | \$9,898 |
| <i>Total Expenses</i> | \$23,788 |
| Return on Operations (Including the cost of funds) | 101% |

- *Long run loss rate is calculated monthly for loans more than 180 days past due*

Clear profitability continues to be seen in Table 4 even with the inclusion of the new Shimkent office expenses. Expenses will continue to increase in the Shimkent branch for the first year while new staff are hired and trained. It will be during the first year that many once-off costs will be incurred, after which the office will operate on an established monthly budget. Given these increased costs, overall profitability may decrease but continue in the upcoming months.

Table 4
Income and Expenses
October 1997 – March 2000
(Including Shimkent)

| INCOME | AMOUNT |
|----------------------------------|---------------|
| Interest and Fee Income | \$259,645 |
| Other Operating Income | \$14,000 |
| Total Income | \$273,645 |
| EXPENSES | |
| Admin, Salaries, Rent, Utilities | \$123,576 |
| Depreciation | \$6,178 |
| Loan Loss | \$10,104 |
| Non-Operating Income | 0 |
| Total Operating Expenses | \$139,858 |
| Operating Profit/Loss | \$133,787 |

Table 5
Balance Sheet
September 1997 – March 2000

| ASSETS | AMOUNT |
|-----------------------------------|---------------|
| Cash on Hand and in the Bank | \$72,667 |
| Mandatory Reserves | 0 |
| Short-term Investments | \$75,000 |
| Loans Outstanding | 2,169 |
| Loan Loss Provisions | 0 |
| Outstanding Portfolio | \$483,441 |
| Long-term Investments | 0 |
| Fixed Assets (after depreciation) | \$35,000 |
| Other Assets | 0 |
| Total Assets | \$661,108 |
| LIABILITIES | 0 |
| Client Savings | 0 |
| Other Deposits | 0 |
| Loans from Central Bank | 0 |
| Loans from other Banks | 0 |
| Other Short-term Liabilities | 0 |
| Other Long-term Liabilities | 0 |
| EQUITY | |
| Paid in Equity (shareholders) | 0 |
| Donated Equity | \$452,000 |
| Retained Earnings | \$214,108 |
| Other Capital Accounts | 0 |
| Total Liabilities and Equity | \$666,108 |

FUTURE ACTIVITIES

One of the main activities during the next reporting period will be the ramping up of the Shimkent branch office activities. New Enterprise Agents will be trained and hired in June and as a result, the portfolio is expected to increase significantly. The Shimkent office has also been given the approval to purchase a small building in Shimkent and is currently seeking an appropriate site. During the next reporting period, the branch will also hire another accountant and data entry person and expect to receive a Peace Corps Volunteer to conduct site visits.

KCLF has also begun negotiations with Turan Alem bank for a commercial loan. According to projections, the Eurasia Foundation grant funds will be lent as of November 2000. As such, KCLF is taking measures to ensure that it will have a consistent supply of lending capital in 2001 and beyond. KCLF has submitted a Business Plan to Turan Alem bank and is currently waiting for a response.

The Taldykorgan office plans to begin working in neighboring rayons (villages) during the next reporting period. This concept has arisen due to demand from businesses in these near-by areas as well as KCLF's need to continue to expand its client base. A workshop will be held in May to develop a working strategy and procedures for this approach.

In late 2000, KCLF will begin steps to launch its individual lending program. This new lending product needs time and attention from the staff and KCLF has put as a priority the implementation of its work in the rayons. In addition, KCLF management also wants to secure the commercial loan to ensure appropriate funds are available for the individual lending program. After these two activities have been settled, KCLF will be in a better position to begin the individual lending program.